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December 28, 2010

Board of Directors
Hancock Regional Hospital
801 N. State Street
Greenfield, IN 46140

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period January 1, 2009 to December 31, 2009. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Hancock Regional Hospital, as of December 31, 2009 and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS



COMBINED FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

CPAs / ADVISORS



HANCOCK REGIONAL HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Hancock Regional Hospital
Greenfield, Indiana

We have audited the accompanying combined balance sheets of Hancock Regional Hospital (the Hospital) and component units as of December 31, 2009 and 2008, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Guidelines for Audits of County and City Hospitals by Independent Certified Public Accountants, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Hospital as of December 31, 2009 and 2008, and the results of its combined operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis as listed in the table of contents is not a required part of the basic combined financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Blue & Co., LLC

April 19, 2010

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

Our discussion and analysis of Hancock Regional Hospital's financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2009 and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 2. Unless otherwise indicated, amounts are in thousands.

FINANCIAL HIGHLIGHTS

- The Hospital's controlling interest in net assets increased in 2009 \$13,255 or 17.47% percent
- Operating income in 2009 increased by \$378 or 4.95% from 2008.
- Nonoperating income increased by \$15,011 in 2009 compared to 2008.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements—a Balance Sheet; a Statement of Operations and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page ii. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Operations and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

THE HOSPITAL’S NET ASSETS

The Hospital’s net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 2. The Hospital’s net assets decreased in 2008 by \$(849) (-1.11 percent) and increased in 2009 by \$13,256 (17.49 percent) as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2009 - 2008</u> <u>\$ Change</u>	<u>% Change</u>
Assets				
Current assets	\$ 30,657	\$ 23,043	\$ 7,614	33.04%
Capital assets, net	64,337	66,445	(2,108)	-3.17%
Restricted and limited use assets	41,382	29,274	12,108	41.36%
Other noncurrent assets	3,604	3,389	215	6.34%
Total assets	<u>139,980</u>	<u>122,151</u>	<u>17,829</u>	<u>14.60%</u>
Liabilities				
Long - term debt outstanding	31,230	32,005	(775)	-2.42%
Other current and non current liabilities	16,286	11,446	4,840	42.29%
Total liabilities	<u>47,516</u>	<u>43,451</u>	<u>4,065</u>	<u>9.36%</u>
Net Assets				
Unrestricted	52,091	37,764	14,327	37.94%
Invested in capital assets, net of related debt	32,193	33,336	-1,143	-3.43%
Restricted by trustee for debt service	4,199	4,241	(42)	-0.99%
Donor restricted - expendable	666	553	113	20.43%
Net assets - controlling interest	<u>89,149</u>	<u>75,894</u>	<u>13,255</u>	<u>17.47%</u>
Non-controlling interest	3,315	2,806	509	18.14%
Total net assets	<u>92,464</u>	<u>78,700</u>	<u>13,764</u>	<u>17.49%</u>
Total liabilities and net assets	<u>139,980</u>	<u>122,151</u>	<u>17,829</u>	<u>14.60%</u>

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

A significant component of the change in the Hospital's assets is the increase in Restricted and Limited Use Assets. Restricted and Limited Use Assets increased significantly \$12,108 or 41.36% due to market increases in investments. Other changes included the addition of medical office building construction in progress located in McCordsville. This facility will have a Physician Office, Urgent Care, Lab, Diagnostic Imaging and physical Therapy located within the facility and will be open in March of 2010.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2009, the Hospital's net assets increased by \$13,255 as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2009 - 2008			
	2009	2008	\$ Change	% Change
Operating Revenue				
Net patient service revenue	\$ 90,352	\$ 90,736	\$ (384)	-0.42%
Other	5,992	6,612	(620)	-9.38%
Total operating revenue	<u>96,344</u>	<u>97,348</u>	<u>(1,004)</u>	<u>-1.03%</u>
Operating expenses				
Salaries and benefits	48,991	47,037	1,954	4.15%
Medical supplies and drugs	10,402	13,076	(2,674)	-20.45%
Purchased services and medical fees	12,256	13,641	(1,385)	-10.15%
Depreciation and amortization	8,658	8,812	(154)	-1.75%
Other operating expense	8,020	7,143	877	12.28%
Total operating expense	<u>88,327</u>	<u>89,709</u>	<u>(1,382)</u>	<u>-1.54%</u>
Operating income	<u>8,017</u>	<u>7,639</u>	<u>378</u>	<u>4.95%</u>
Nonoperating income (expense)				
Noncapital contributions	931	849	82	9.66%
Other nonoperating income	(544)	(504)	(40)	7.94%
Interest expense	(1,724)	(2,843)	1,119	-39.36%
Investment income	7,587	(6,263)	13,850	221.14%
Total Nonoperating income	<u>6,250</u>	<u>(8,761)</u>	<u>15,011</u>	<u>171.34%</u>
Consolidated change in net assets	14,267	(1,122)	15,389	1372%
Less amount attributable to non-controlling interest	<u>(1,012)</u>	<u>273</u>	<u>(1,285)</u>	<u>-471%</u>
Change in net assets attributable to controlling interest	<u>\$ 13,255</u>	<u>(849)</u>	<u>\$ 14,104</u>	<u>1661%</u>

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

	<u>Controlling Interest</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Net asset balances			
December 31, 2007	\$ 76,743	\$ 3,017	\$ 79,760
Combined change in net assets	(849)	(273)	(1,122)
Purchase of units	<u>-0-</u>	<u>63</u>	<u>63</u>
December 31, 2008	75,894	2,807	78,701
Combined change in net assets	13,255	1,012	14,267
Sale of units	<u>-0-</u>	<u>(503)</u>	<u>(503)</u>
December 31, 2009	<u>\$ 89,149</u>	<u>\$ 3,316</u>	<u>\$ 92,465</u>

SOURCES OF REVENUE

During 2009 the Hospital derived substantially all of its revenue from patient service and other related activities. Revenue includes, among other items, revenue from the Medicare and Medicaid programs, patients, insurance carriers, preferred provider organizations, and managed care programs.

The table below presents the percentages of gross revenue for patient services by payer, for the years ended December 31, 2009 and 2008, respectively.

PAYOR MIX

	<u>2009</u>	<u>2008</u>
Medicare	46%	48%
Medicaid	8%	8%
Commercial	37%	35%
Self-Pay	7%	7%
Other	<u>2%</u>	<u>2%</u>
	<u>100%</u>	<u>100%</u>

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

The Hospital provides care to patients under payment arrangement with Medicare, Medicaid, and various managed care programs. Services provided under those arrangements are paid at predetermined rates and/or reimbursable costs as defined. Provisions have been made in the financial statements for contractual adjustments, which represent the difference between the standard charges for services and the actual or estimated payment. Disproportionate Share Hospital Payment for years 2009 and 2008 were \$2,282 and \$5,891, respectively.

OPERATING GAINS

The first component of the overall change in the Hospital's net assets is its operating income, generally the difference between net patient service and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating gain. This is consistent with the Hospital's entire operating history. The Hospital's operations were begun in 1951 as a county owned and operated hospital under Indiana Code 16-22. Operating income in 2009 increased by \$378 or 4.95% from 2008.

The increase in the Hospital's total operating income in 2009 of \$378 or 4.95% from 2008 is the result of a rate increase and efficiencies gained. During 2009, the Hospital increased gross charge rates 8% compared to 2008. More importantly, the Hospital experienced statistical changes in the following areas:

Statistical Growth	2009	2008	2009-2008
			% Increase /
Patient Days	19,814	20,326	-2.52%
Diagnostic Imaging	62,069	67,137	-7.55%
Lab	302,965	345,270	-12.25%
Pharmacy	1,620,507	1,291,589	25.47%
Rehab Services	81,159	83,444	-2.74%
Home Health Services	55,958	44,118	26.84%
Outpatient Clinic Services	15,373	16,459	-6.60%

Excluded from net patient service revenue are charges for patient service waived under the Hospital's charity care policy. Charity care represents unreimbursed charges incurred by the Hospital in providing uncompensated care to indigent patients. Based on established rates, gross charges of \$4,536 were waived during 2009. This is a decrease of \$413 from the previous year.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the Hospital when it was established in 1951. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

NON-OPERATING INCOME AND EXPENSES

Non-operating income is the result of changes in the Hospital's Investment Income and other Non Capital Grants and Contributions. The Hospital's Investment Income increased due to favorable changes in market values during 2009. The Hospital's 2009 nonoperating (expense) increased \$15,011 or 171.34% from 2008 nonoperating income. Favorable market conditions significantly influenced this change.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives grants from various state and federal agencies for specific programs. Grants received in 2009 totaled \$896 compared to \$554 in 2008. Some of the significant grants received by the Hospital are:

- Tobacco Cessation – From Indiana State Department of Health for prevention of tobacco use
- Rural Health Clinic – Knightstown from Indiana State Department of Health – for rural health clinic operations in Knightstown
- Disaster Preparedness & Bioterrorism– From the State Department of Health – for Hospital disaster preparation and bioterrorism.
- Lifeline patient monitoring - Central Indiana Power – for remote monitoring of home-bound elderly patients
- Education Department – Substance Abuse Prevention
- Critical Needs Expansion
- Women's Health Center

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and non-operating revenues and expenses, discussed earlier.

HANCOCK REGIONAL HOSPITAL

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2009 AND 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of 2009, the Hospital had \$64.3 million invested in capital assets, net of accumulated depreciation, as detailed in Note 9 to the financial statements.

DEBT

At year-end, the Hospital had \$32.1 million in revenue notes, mortgage loans, and capital lease obligations outstanding. The Indiana Bond Bank issued new debt in June 2004 totaling \$35 million pursuant to a Trust Indenture with the Trustee – the Bank of New York Trust Company. The Hancock County Association was created in 2004 under Indiana Code and is authorized to enter into leases with a county to provide funds to the Hospital. The Association issued the Series 2004 C Qualified Obligations pursuant to a Trust Indenture dated June 1 2004 between the Association and Trustee. This debt was issued for a new 122,000 square foot hospital expansion with the expanded services in Emergency Medicine, Cardiology and Critical Care and an expansion of space for future health needs of the community. The Board of Trustees of the Hospital and Hancock County, Indiana, acting through its Board of Commissioners are lessees with the Association for the Hospital additions and improvements. The Lessee has agreed to make payments directly to the Trustee in amounts and times sufficient to pay in full, when due, the principal and interest of the Series 2004 C Obligations. The County and Hospital anticipate that the full lease rental payments will be paid from Hospital Revenues. This debt consists of Revenue Bonds maturing in January 2031. This transaction is further detailed in Note 10.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer's Office, 801 N State Street, Greenfield, IN 46140.

HANCOCK REGIONAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current assets		
Cash and cash equivalents	\$ 16,872,078	\$ 10,504,229
Investments	1,578,792	1,505,940
Patient accounts receivable, net	9,235,577	8,085,983
Inventories and other current assets	<u>2,970,911</u>	<u>2,947,267</u>
Total current assets	30,657,358	23,043,419
Assets whose use is limited		
Board designated funds	36,517,307	24,479,910
Trustee held funds, less current portion	4,198,461	4,240,828
Donor restricted funds	<u>666,381</u>	<u>553,275</u>
Total assets whose use is limited	41,382,149	29,274,013
Capital assets		
Land and land improvements	5,487,028	5,487,028
Buildings and fixed equipment	101,094,972	98,075,600
Major movable equipment	41,254,792	40,372,044
Construction in progress	<u>2,972,982</u>	<u>543,758</u>
Total capital assets	150,809,774	144,478,430
Less accumulated depreciation	<u>86,472,175</u>	<u>78,033,271</u>
Capital assets, net	64,337,599	66,445,159
Other assets		
Bond issuance costs, net of accumulated amortization of \$369,573 in 2009 and \$364,247 in 2008	112,872	118,003
Other assets	<u>3,490,150</u>	<u>3,270,091</u>
Total other assets	<u>3,603,022</u>	<u>3,388,094</u>
Total assets	<u>\$ 139,980,128</u>	<u>\$ 122,150,685</u>

HANCOCK REGIONAL HOSPITAL

COMBINED BALANCE SHEETS DECEMBER 31, 2009 AND 2008

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities		
Current portion of long-term debt	\$ 915,000	\$ 850,000
Accounts payable and other liabilities	4,911,634	5,165,492
Accrued salaries and related liabilities	6,487,383	4,567,421
Estimated third-party settlements	3,972,193	863,116
Total current liabilities	<u>16,286,210</u>	<u>11,446,029</u>
Long-term debt, less current portion	<u>31,230,000</u>	<u>32,005,000</u>
Total liabilities	<u>47,516,210</u>	<u>43,451,029</u>
Net assets		
Unrestricted	52,091,097	37,763,838
Invested in capital assets, net of related debt	32,192,599	33,335,305
Restricted by trustee for debt service	4,198,461	4,240,828
Donor restricted-expendable	666,381	553,275
Net assets - controlling interest	<u>89,148,538</u>	<u>75,893,246</u>
Non-controlling interest	<u>3,315,380</u>	<u>2,806,410</u>
Total net assets	<u>92,463,918</u>	<u>78,699,656</u>
Total liabilities and net assets	<u><u>\$ 139,980,128</u></u>	<u><u>\$ 122,150,685</u></u>

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenue		
Net patient service revenue	\$ 90,352,415	\$ 90,736,496
Other operating revenue	5,991,581	6,611,836
Total operating revenue	<u>96,343,996</u>	<u>97,348,332</u>
Operating expenses		
Salaries and wages	38,133,791	37,287,684
Employee benefits	10,857,404	9,749,467
Professional medical fees	1,206,287	1,078,321
Supplies and drugs	10,402,352	13,075,882
Purchased services	11,050,001	12,563,326
Utilities and insurance	3,311,053	3,099,643
Depreciation and amortization	8,657,750	8,812,414
Other	4,708,666	4,043,076
Total operating expenses	<u>88,327,304</u>	<u>89,709,813</u>
Operating income	8,016,692	7,638,519
Nonoperating income (expense), net		
Noncapital contributions	931,264	849,015
Other nonoperating income (expense)	(543,670)	(503,929)
Interest expense	(1,724,340)	(2,843,239)
Investment income	7,586,885	(6,262,782)
Total nonoperating income (expense)	<u>6,250,139</u>	<u>(8,760,935)</u>
Combined change in net assets	14,266,831	(1,122,416)
Less amount attributable to non-controlling interest	<u>(1,011,539)</u>	<u>273,018</u>
Change in net assets attributable to controlling interest	<u>\$ 13,255,292</u>	<u>\$ (849,398)</u>

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>Controlling Interest</u>	<u>Non-controlling Interest</u>	<u>Total</u>
Net asset balances			
December 31, 2007	\$ 76,742,644	\$ 3,016,928	\$ 79,759,572
Combined change in net assets	(849,398)	(273,018)	(1,122,416)
Purchase of units	<u>-0-</u>	<u>62,500</u>	<u>62,500</u>
December 31, 2008	75,893,246	2,806,410	78,699,656
Combined change in net assets	13,255,292	1,011,539	14,266,831
Sale of units	<u>-0-</u>	<u>(502,569)</u>	<u>(502,569)</u>
December 31, 2009	<u>\$ 89,148,538</u>	<u>\$ 3,315,380</u>	<u>\$ 92,463,918</u>

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating activities		
Cash received from patients and third party payors	\$ 92,311,898	\$ 93,789,714
Cash paid to employees for wages and benefits	(47,071,233)	(45,979,728)
Cash paid to vendors for goods and services	(30,103,147)	(31,492,786)
Other operating receipts, net	5,991,581	6,611,836
Net cash from operating activities	<u>21,129,099</u>	<u>22,929,036</u>
Noncapital financing activities		
Noncapital contributions	931,264	849,015
Other nonoperating	(543,670)	(503,929)
Net cash from noncapital financing activities	<u>387,594</u>	<u>345,086</u>
Capital and related financing activities		
Acquisition and construction of capital assets	(6,572,961)	(5,111,352)
Purchase (sale) of non-controlling interest	(502,569)	62,500
Interest expense on long-term debt	(1,724,340)	(2,843,239)
Principal payments on long-term debt, net	(850,000)	(14,441,752)
Net cash from capital and related financing activities	<u>(9,649,870)</u>	<u>(22,333,843)</u>
Investing activities		
Other assets and liabilities	(220,059)	(161,406)
Investment income	7,586,885	(6,262,782)
Other change in assets whose use is limited, net	(7,749,667)	5,447,464
Net cash from investing activities	<u>(382,841)</u>	<u>(976,724)</u>
Net change in cash and cash equivalents	11,483,982	(36,445)
Cash and cash equivalents		
Beginning of year	13,629,665	13,666,110
End of year	<u>\$ 25,113,647</u>	<u>\$ 13,629,665</u>

HANCOCK REGIONAL HOSPITAL

COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Reconciliation of operating income to net cash from operating activities		
Operating income	\$ 8,016,692	\$ 7,638,519
Adjustment to reconcile operating income to net cash from operating activities		
Depreciation and amortization	8,657,750	8,812,414
Bad debts	8,484,833	7,368,141
Changes in assets and liabilities		
Patient accounts receivable	(9,634,427)	(4,174,497)
Other current assets	829,070	(746,324)
Accounts payable and other liabilities	(253,858)	3,113,786
Accrued salaries and related liabilities	1,919,962	1,057,423
Estimated third-party settlements	3,109,077	(140,426)
Net cash from operating activities	<u>\$ 21,129,099</u>	<u>\$ 22,929,036</u>
 Reconciliation of cash and cash equivalents to the balance sheets		
Cash and cash equivalents:		
In current assets	\$ 16,872,078	\$ 10,504,229
In investments	57,088	56,034
In assets whose use is limited	8,184,481	3,069,402
Total cash and cash equivalents	<u>\$ 25,113,647</u>	<u>\$ 13,629,665</u>
 Noncash capital and related financing activities		
Ownership purchase in Hancock Regional Surgery Center	\$ 140,000	\$ -

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

1. SIGNIFICANT ACCOUNTING POLICIES

Organization and Reporting Entity

Hancock Regional Hospital (the Hospital) is an acute-care hospital located in Greenfield, Indiana, organized for the purpose of providing healthcare services to the residents of Hancock County and the surrounding communities. Hancock Regional Hospital is a county owned facility operated under the Indiana County Hospital Law, Indiana Code 16-22. The Board of County Commissioners of Hancock County appoints the Governing Board of the Hospital and a financial benefit/burden relationship exists between the County and the Hospital. For these reasons, the Hospital is considered a component unit of Hancock County.

In 2004, the Board of County Commissioners of Hancock County, upon written request of the Hancock County Hospital Board of Trustees created the Hancock County Hospital Association. The Association was created pursuant to the provisions of Indiana Code 16-22-6 for the exclusive purpose to provide funds to finance, acquire, renovate, equip and lease land and buildings for the Hospital.

Accounting principles generally accepted in the United States of America require that these combined financial statements present the Hospital and its blended component units, collectively referred to as the "primary government." The component units discussed below are included in the Hospital's reporting entity because of the significance of their operation or financial relationship with the Hospital. A blended component unit although a legally separate entity is in substance part of the primary government unit's operations and exists solely or primarily to provide services to or for the Hospital.

Blended Component Units

The accompanying combined financial statements include the accounts of Hancock Memorial Hospital Foundation, Inc. (the Foundation), a separate not-for-profit entity organized to support the operations of the Hospital. All significant transactions between the Hospital and the Foundation have been eliminated for financial reporting purposes. The accompanying combined financial statements also include the accounts of the Wellness Center, LLC, a separate for-profit entity organized to support the operations of the Hospital. It also includes the accounts of the Blended Component Unit – Hancock Regional Surgery Center, LLC (HRSC), a separate limited liability company.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

HRSC was formed for the purpose of owning and operating a multi-specialty ambulatory surgery facility that provides the medical, management and administrative support necessary for licensed physicians to perform non-emergency surgical procedures on an outpatient basis. During 2009, the Hospital increased their membership interest from 46% to 51%. The Hospital maintains substantial participation in the operations of HRSC in addition to an economic interest in HRSC's financial position. Hancock Regional Surgery Center (HRSC) was reported under the equity method in previous audited financial statements. During 2009, the Hospital obtained management control of HRSC. In these financial statements, HRSC is consolidated as a blended component unit.

The separate financial statements for each of the entities discussed above may be obtained through contacting management of the Hospital.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement Number 20, *Accounting and Financial Reporting For Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid assets with maturity dates of 90 days or less when purchased with the exception of those included with Assets Whose Use is Limited. The Hospital maintains its cash in accounts, which at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable and Net Patient Service Revenue

Patient revenues and the related accounts receivable are recorded at the time services to patients are performed. Management estimates an allowance for doubtful accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

A summary of the payment arrangements with major third-party payors follows.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital is reimbursed for Medicare and Medicaid inpatient services based on a fixed price per discharge for each diagnosis related grouping (DRG). The Hospital is reimbursed for Medicare and Medicaid outpatient services based on a fixed price per clinical unit of service. Differences between the total program billed charges and the payments received are reflected as deductions from revenue.

Revenue from the Medicare and Medicaid programs accounted for approximately 35 percent and 8 percent, respectively, of the Hospital's net patient revenue for the year ended 2009, and 37 percent and 7 percent, respectively, of the Hospital's net patient revenue, for the year ended 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

HANCOCK REGIONAL HOSPITAL

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The Hospital recognized revenue related to the Medicaid Disproportionate Share Hospital and the Upper Payment Limitation programs of \$2,282,011 and \$5,891,122 for the years ended December 31, 2009 and 2008, respectively. These amounts are reimbursements for providing care to the uninsured and underinsured.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Amounts deemed to be charity care are reported as deductions from revenues.

Combined Statements of Cash Flows

For purposes of the combined statements of cash flows, cash consists of unrestricted cash that is readily available for use in operations. Cash paid for interest, net of amount capitalized in 2009 and 2008 was \$1,707,085 and \$2,511,891 respectively. Capitalized interest was \$24,304 and \$21,149 for 2009 and 2008, respectively.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventory at year-end consists mainly of pharmaceuticals and medical supplies.

Assets Whose Use is Limited

These assets include investments designated by the Hospital Board for internal purposes, investments and other assets restricted by donors for a specific purpose and investments held by trustees for debt service and continued construction projects.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating income when earned.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Capital Assets and Depreciation

Capital assets such as property and equipment are stated at cost and include expenditures for new additions and other costs added to existing facilities, which exceed \$1,000 and meet certain useful life thresholds. Maintenance, repairs and minor renewals are expensed as incurred. The Hospital provides for depreciation of property and equipment using annual rates, which are sufficient to depreciate the cost of depreciable assets over their estimated useful lives using the straight-line method. The ranges of useful lives in computing depreciation include the following:

<u>Description</u>	<u>Range of Useful Lives</u>
Land improvements	8-15 years
Buildings and fixed equipment	5-40 years
Major movable equipment	3-20 years

Costs of Borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Bond Issuance Costs

The Hospital provides for the amortization of costs incurred for the issuance of bonds over the life of the debt. Bond issuance costs are amortized over the life of the bond utilizing the straight-line method.

Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, patient accounts receivable, assets whose use is limited, accounts payable, accrued liabilities, estimated third-party settlements and long-term debt. The carrying amounts reported in the combined balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable, accrued liabilities and estimated third-party settlements approximate fair value. The fair values of assets whose use is limited are estimated based on quoted market prices for those or similar investments.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The fair value of the Hospital's long-term debt is estimated based on market prices for similar issues on current rates offered to the Hospital. The fair value of the Revenue Bond, Series 2004 as of December 31, 2009 and 2008 approximated \$32,076,550, respectively, with a carrying value of \$32,005,000, respectively. The fair value of the variable rate obligations is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

Federal or State Income Taxes

The Hospital is a governmental instrumentality organized under Title 16, Article 12, of the Indiana statutes. The Hospital is exempt from federal income tax as a unit of local government. Hancock Memorial Hospital Foundation, Inc. is a 501(c)(3) not-for-profit organization. Hancock Wellness, LLC and Hancock Surgery Center, LLC are each a limited liability company whereby, net taxable income is taxed directly to the members and not the Company.

Investments in Affiliates

The Hospital owns 50% of a Physician Hospital Organization (PHO) and Hancock Health Network, LLC, and approximately 37% of Parkway, LLC. The Hospital has recorded the investment in affiliates within other assets on the balance sheet.

Advertising and Community Relations

The Hospital records advertising and promotion expense in the period incurred. Total expense for advertising and promotion was \$305,850 and \$446,030 for 2009 and 2008, respectively.

Compensated Absences

The Hospital's employees earn time off at varying rates depending on years of service. The estimated amount of unused earned time off is reported as a liability in combined financial statements.

Reclassifications

Certain amounts from the 2008 financial statements have been reclassified to conform to the 2009 presentation.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are expendable noncapital net assets that must be used for a particular purpose, as specified by creditors or donors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses

The Hospital's statement of operations and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services which is the Hospital's principal activity. Contributions, investment income, fund development costs and certain other non-healthcare activities are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Litigation

The Hospital is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Subsequent Events

The Hospital evaluated events or transactions occurring subsequent to the balance sheet date for recognition and disclosure in the accompanying financial statements through the date the financial statements are issued which is April 19, 2010.

2. ACCOUNTING FOR NON-CONTROLLING INTEREST

In 2009, new accounting guidance relative to the presentation of non-controlling interests in financial statements became effective. The Hospital adopted this guidance and reclassified the non-controlling interest as a component of net assets in the combined balance sheets and combined statements of changes in net assets. In addition, combined change in net assets is shown in two components, displaying the portions attributable to both the controlling interest and non-controlling interest, on the combined statements of revenues and expenses. The adoption of this pronouncement did not have an effect on combined change in net assets for 2008.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

3. CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charity care provided during 2009 and 2008 was \$4,535,827 and \$4,948,981, respectively.

4. INVESTMENTS AND ASSETS WHOSE USE IS LIMITED

Board Designated Funds

The Hospital funds depreciation expense to meet the capital equipment needs of the facility. Depreciation is funded totally, with expenditures for capital equipment and debt principal payments reducing the funded depreciation balance. The Hospital designates other investments to fund specific projects. All interest earned by the funded depreciation and other board designated investment accounts are left to accumulate as an addition to the funds.

Donor Restricted Funds

The Hospital has assets, which have been donated for a specific purpose.

Trustee Held Assets

The Hospital deposited investments with a trustee, which will be utilized to provide for debt service, and continued construction projects.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The following represents assets whose use is limited and investments as of December 31, 2009 and 2008:

	2009	2008
Board designated funds	\$ 36,517,307	\$ 24,479,910
Donor restricted funds	666,381	553,275
Trustee held assets for debt service	4,198,461	4,240,828
Total assets whose use is limited	41,382,149	29,274,013
Investments	1,578,792	1,505,940
	<u>\$ 42,960,941</u>	<u>\$ 30,779,953</u>
Hospital mutual funds - equities	\$ 22,561,548	\$ 13,073,979
Hospital mutual funds - fixed income	8,087,976	10,485,794
Foundation mutual funds - equities	1,038,130	811,065
Foundation mutual funds - fixed income	397,599	469,873
Certificates of deposit	85,975	168,968
Money market funds	8,241,569	3,125,436
Government securities	2,512,039	2,562,747
Other assets	36,105	82,091
	<u>\$ 42,960,941</u>	<u>\$ 30,779,953</u>

5. DEPOSITS AND INVESTMENTS

Deposits with financial institutions in the State of Indiana at year-end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

Investments are carried at fair market value. Net realized gains and losses on security transactions are determined on the specific identification cost basis. Assets whose use is limited investments consist of cash equivalents, mutual funds and U.S. Government securities.

The Hospital's investments generally are reported at fair value, as discussed in Note 1. As of December 31, 2009 and 2008, the Hospital had the following investments and maturities, all of which were held in the Hospital's name by custodial banks that are agents of the Hospital.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

December 31, 2009

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and money market funds	\$ 8,241,569	\$ 8,241,569	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	85,975	29,744	56,231	-0-	-0-
Mutual funds - equities	23,599,678	23,599,678	-0-	-0-	-0-
Mutual funds - fixed income	8,485,575	8,485,575	-0-	-0-	-0-
Government securities	2,512,039	-0-	-0-	-0-	2,512,039
Other assets	36,105	36,105	-0-	-0-	-0-
	<u>\$ 42,960,941</u>	<u>\$ 40,392,671</u>	<u>\$ 56,231</u>	<u>\$ -0-</u>	<u>\$ 2,512,039</u>

December 31, 2008

	Carrying Amount	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Cash and money market funds	\$ 3,125,436	\$ 3,125,436	\$ -0-	\$ -0-	\$ -0-
Certificates of deposit	168,968	114,704	54,264	-0-	-0-
Mutual funds - equities	13,885,044	13,885,044	-0-	-0-	-0-
Mutual funds - fixed income	10,955,667	10,955,667	-0-	-0-	-0-
Government securities	2,562,747	-0-	-0-	-0-	2,562,747
Other assets	82,091	82,091	-0-	-0-	-0-
	<u>\$ 30,779,953</u>	<u>\$ 28,162,942</u>	<u>\$ 54,264</u>	<u>\$ -0-</u>	<u>\$ 2,562,747</u>

Interest rate risk - The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit risk - Statutes authorize the Hospital to invest in interest bearing deposit accounts, passbook savings accounts, certificates of deposit, money market accounts, mutual funds, pooled fund investments, securities backed by the full faith and credit of the United States Treasury and repurchase agreements. The statutes require that repurchase agreements be fully collateralized by U.S. Government or U.S. Government Agency obligations.

Concentration of credit risk - The Hospital places no limit on the amount it may invest in any one issuer. The Hospital maintains its investments, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on investments.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Deposits and investments consist of the following as of December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Carrying amount		
Deposits	\$ 16,872,078	\$ 10,504,229
Investments	42,960,941	30,779,953
	<u>\$ 59,833,019</u>	<u>\$ 41,284,182</u>
Included in the balance sheet captions		
Cash and cash equivalents	\$ 16,872,078	\$ 10,504,229
Investments	1,578,792	1,505,940
Board designated funds	36,517,307	24,479,910
Trustee held funds, less current portion	4,198,461	4,240,828
Donor restricted funds	666,381	553,275
	<u>\$ 59,833,019</u>	<u>\$ 41,284,182</u>

6. FAIR VALUE MEASUREMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 inputs are readily determinable using unadjusted quoted prices for identical assets or liabilities in active markets. Level 2 inputs are derived from quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. If the inputs used fall within different levels of the hierarchy, the categorization is based upon the lowest level input that is significant to the fair value measurement.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 are as follows:

	2009			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments				
Mutual funds - equities	\$ 1,038,130	\$ 1,038,130	-0-	-0-
Mutual funds - fixed income	397,599	397,599	-0-	-0-
		<u>\$ 1,038,130</u>	<u>-0-</u>	<u>-0-</u>
Cash equivalents	57,088			
Certificate of deposit	85,975			
Total Investments	<u>\$ 1,578,792</u>			
Assets whose use is limited				
U.S. Government Securities	\$ 2,512,039	\$ -	\$ 2,512,039	-0-
Mutual funds - equities	8,087,976	8,087,976	-0-	-0-
Mutual funds - fixed income	22,561,548	22,561,548	-0-	-0-
Other Assets	36,105	36,105	-0-	-0-
		<u>\$ 30,685,629</u>	<u>\$ 2,512,039</u>	<u>-0-</u>
Cash and equivalents	8,184,481			
Total assets whose use is limited	<u>\$ 41,382,149</u>			

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 are as follows:

	2008			
	Total	Level 1	Level 2	Level 3
Assets:				
Investments				
Mutual funds - equities	\$ 811,065	\$ 811,065	-0-	-0-
Mutual funds - fixed income	469,873	469,873	-0-	-0-
		<u>\$ 1,280,938</u>	<u>-0-</u>	<u>-0-</u>
Cash equivalents	56,034			
Certificate of deposit	168,968			
Total Investments	<u>\$ 1,505,940</u>			
Assets whose use is limited				
U.S. Government Securities	\$ 2,562,747	\$ -	\$ 2,562,747	-0-
Mutual funds - equities	13,073,979	13,073,979	-0-	-0-
Mutual funds - fixed income	10,485,794	10,485,794	-0-	-0-
Other Assets	82,091	82,091	-0-	-0-
		<u>\$ 23,641,864</u>	<u>\$ 2,562,747</u>	<u>-0-</u>
Cash and equivalents	3,069,402			
Total assets whose use is limited	<u>\$ 29,274,013</u>			

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

7. ACCOUNTS RECEIVABLE AND PAYABLE

Patient accounts receivable and accounts payable (including expenses) reported as current assets and liabilities as of December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Patient accounts receivable		
Receivable from patients and their insurance carriers	17,348,955	16,217,256
Receivable from Medicare	10,029,587	10,602,251
Receivable from Medicaid	2,486,123	1,871,723
Total patient accounts receivable	<u>29,864,665</u>	<u>28,691,230</u>
Less contractual allowances	(13,377,058)	(12,808,345)
Less allowance for uncollectible amounts	(7,252,030)	(7,796,902)
Patient accounts receivable, net	<u>\$ 9,235,577</u>	<u>\$ 8,085,983</u>
Accounts payable and accrued expenses		
Payable to employees (including payroll taxes and benefits)	6,487,383	4,567,422
Payable to suppliers	4,135,040	4,362,328
Accrued interest	776,594	803,163
Total accounts payable and accrued expenses	<u>\$ 11,399,017</u>	<u>\$ 9,732,913</u>

8. INVESTMENTS IN AFFILIATES

The Hospital owns 50% of Hancock Health Network, LLC (the Network) and has recorded the investment on the equity method of accounting in the amount of \$1,372,794 and \$1,159,387 as of December 31, 2009 and 2008, respectively. The Hospital paid physicians approximately \$416,000 and \$257,000 during 2009 and 2008, respectively for management and other operating expenses. The Hospital received \$461,000 and \$443,000 for 2009 and 2008, respectively from the Network for rental and housecleaning income. The Hospital contributed capital of \$1,650,653 and \$1,685,547 to the Network during 2009 and 2008, respectively. The Hospital has a receivable from the Network of \$31,691 and \$31,613 as of December 31, 2009 and 2008, respectively. The Hospital expects to continue providing capital contributions to the Network at a commensurate level with its past experience.

The Hospital owns approximately 37% of Parkway, LLC and 50% of a Physician Hospital Organization (PHO) and has recorded the investments on the equity method of accounting. Investments in these affiliates are immaterial to the financial statements.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

9. CAPITAL ASSETS

Capital assets consist of the following as of December 31, 2009 and 2008:

	Balance December 31, 2008	Additions	Retirements	Transfers	Balance December 31, 2009
Land	\$ 270,285	\$ -0-	\$ -0-	\$ -0-	\$ 270,285
Land improvements	5,216,743	-0-	-0-	-0-	5,216,743
Buildings and fixed equipment	98,075,600	2,984,746	(588)	-0-	101,059,758
Major movable equipment	40,372,044	1,158,991	(241,029)	-0-	41,290,006
Construction in progress	543,758	2,429,224	-0-	-0-	2,972,982
Total property and equipment	144,478,430	6,572,961	(241,617)	-0-	150,809,774
Less accumulated depreciation					
Land improvements	(2,350,003)	(368,495)	589	-0-	(2,717,909)
Buildings and fixed equipment	(45,719,486)	(4,276,668)	-0-	-0-	(49,996,154)
Major movable equipment	(29,963,782)	(4,006,340)	212,010	-0-	(33,758,112)
Total accumulated depreciation	(78,033,271)	(8,651,503)	212,599	-0-	(86,472,175)
Property and equipment, net	\$ 66,445,159	\$ (2,078,542)	\$ (29,018)	\$ -0-	\$ 64,337,599
	Balance December 31, 2007	Additions	Retirements	Transfers	Balance December 31, 2008
Land	\$ 270,285	\$ -0-	\$ -0-	\$ -0-	\$ 270,285
Land improvements	4,473,861	-0-	-0-	742,882	5,216,743
Buildings and fixed equipment	87,134,570	1,190,960	(169,447)	9,919,517	98,075,600
Major movable equipment	41,887,237	2,957,263	(1,772,878)	(2,699,578)	40,372,044
Construction in progress	7,543,450	963,129	-	(7,962,821)	543,758
Total property and equipment	141,309,403	5,111,352	(1,942,325)	-0-	144,478,430
Less accumulated depreciation					
Land improvements	(2,021,594)	(328,409)	-0-	-0-	(2,350,003)
Buildings and fixed equipment	(41,922,029)	(3,929,600)	132,143	-0-	(45,719,486)
Major movable equipment	(27,290,687)	(4,393,496)	1,720,401	-0-	(29,963,782)
Total accumulated depreciation	(71,234,310)	(8,651,505)	1,852,544	-0-	(78,033,271)
Property and equipment, net	\$ 70,075,093	\$ (3,540,153)	\$ (89,781)	\$ -0-	\$ 66,445,159

10. LONG-TERM DEBT

The Hospital issued tax-exempt revenue bonds, dated November 1, 1996, totaling \$20,065,000. The bonds matured serially on an annual basis through August 15, 2017 at interest rates ranging from 5.9% to 6.2%. Interest on these bonds was to be paid semi-annually on February 15 and August 15. Net revenues and certain assets held by the trustee secured the tax-exempt revenue bonds.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The Series 1996 bonds required the Hospital to maintain certain financial debt coverage ratios. As of December 31, 2008, the Hospital was in compliance with the debt coverage ratios. During 2008, the Hospital paid off the remaining balance of the Series 1996 bonds with investment funds.

The Indiana Bond Bank (the "Bond Bank") issued Special Program Bonds, Series 2004 C (Hancock Memorial Hospital and Health Services Project) on June 1, 2004 pursuant to the provisions of a Trust Indenture with the Trustee, the Bank of New York Trust Company, NA, Indianapolis, Indiana in the aggregate principal amount of \$35,010,000.

The Bond Bank is the obligor to the bondholders. The bonds are insured. The proceeds from the sale of the Series 2004 C Bonds were used to provide funds to (a) purchase Series 2004 C Qualified Obligations in the amount of \$34,475,000, (b) provide a credit facility for the Debt Service Reserve fund, (c) pay a portion of the interest on the Series 2004 C Bonds, (d) pay the premium for bond insurance, and (e) pay all of the Costs of Issuance of the Series 2004 C Bonds, including the underwriters discount.

The Hancock County Hospital Association (the "Association") was created in 2004 under the Indiana Code and is authorized to enter into leases with a county in order to provide funds to finance, acquire, renovate, equip and lease land and buildings. The Association issued the Series 2004 C Qualified Obligations pursuant to a Trust Indenture dated June 1, 2004 between the Association and the Trustee.

The net proceeds from the Series 2004 C Qualified Obligations were used for Hospital additions and improvements, which will include a new Emergency Department, Intensive Care and Cardiac Care Center and expansion of space for future hospital and healthcare needs.

The Board of Trustees of the Hospital and Hancock County, Indiana, acting through its Board of Commissioners are lessees (collectively, the "Lessee") under a lease agreement dated April 1, 2004 (the "Lease") with the Association (the "Lessor") for the Hospital additions and improvements (the "Leased Premises").

Pursuant to the Lease, the Lessee has agreed to make payments directly to the Trustee in such amounts and at such times as are sufficient to pay in full, when due, the principal and interest of the Series 2004 C Obligations. The County and the Hospital anticipate that the full lease rental payments will be paid from Hospital revenues.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

The Series 2004 C Obligations and the Lease have essentially the same terms with interest rates ranging from 2.94% to 5.52% to be paid semi-annually on January 15 and July 15 through January 15, 2031. The Trust Indenture has certain compliance requirements for which the Hospital believes it is in compliance. The lease rental revenues are pledged to secure the Series 2004 C obligations.

Long-term debt as of December 31, 2009 and 2008 includes the following:

	Balance December 31, 2008	Additions	Reductions	Balance December 31, 2009	Current Portion	Long-Term Portion
The Series 2004 C Obligations						
Capital Lease	\$ 32,855,000	\$ -0-	\$ (850,000)	\$ 32,005,000	\$ 880,000	\$ 31,125,000
Surgery Center Investor Buyouts	-0-	140,000	-0-	140,000	35,000	105,000
Total long-term debt	<u>\$ 32,855,000</u>	<u>\$ 140,000</u>	<u>\$ (850,000)</u>	<u>\$ 32,145,000</u>	<u>\$ 915,000</u>	<u>\$ 31,230,000</u>
	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008	Current Portion	Long-Term Portion
The Series 2004 C Obligations						
Capital Lease	\$ 33,680,000	\$ -0-	\$ (825,000)	\$ 32,855,000	\$ 850,000	\$ 32,005,000
Indiana Health Facility Financing Authority, series 1996	12,205,000	-0-	(12,205,000)	-0-	-0-	-0-
Note payable; due January 4, 2021; interest rate at 6.75%; real estate and property as collateral	2,031,846	-0-	(2,031,846)	-0-	-0-	-0-
Less: unamortized loss on refunding	(620,094)	-0-	620,094	-0-	-0-	-0-
Total long-term debt	<u>\$ 47,296,752</u>	<u>\$ -0-</u>	<u>\$ (14,441,752)</u>	<u>\$ 32,855,000</u>	<u>\$ 850,000</u>	<u>\$ 32,005,000</u>

Aggregate maturities of long-term debt are as follows:

Year Ending December 31,	Principal	Interest	Total
2010	\$ 915,000	\$ 1,625,058	\$ 2,540,058
2011	955,000	1,590,294	2,545,294
2012	995,000	1,552,271	2,547,271
2013	1,035,000	1,511,015	2,546,015
2014	1,040,000	1,466,593	2,506,593
2015-2019	5,995,000	6,548,253	12,543,253
2020-2024	7,665,000	4,871,258	12,536,258
2025-2029	9,980,000	2,552,716	12,532,716
2030-2033	3,565,000	198,582	3,763,582
	<u>\$ 32,145,000</u>	<u>\$ 21,916,040</u>	<u>\$ 54,061,040</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

11. PATIENT SERVICE REVENUE

Patient service revenue for 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Inpatient	\$ 57,151,470	\$ 55,219,964
Outpatient	122,266,360	112,865,315
Transitional Care/Inpatient Rehabilitation	4,995,519	4,906,732
Geriatric Psychiatric	4,555,822	3,724,495
Gross patient service revenue	<u>188,969,171</u>	<u>176,716,506</u>
Contractual allowance	85,596,096	73,662,888
Bad debts	8,484,833	7,368,141
Charity care	4,535,827	4,948,981
Deductions from revenue	<u>98,616,756</u>	<u>85,980,010</u>
Net patient service revenue	<u>\$ 90,352,415</u>	<u>\$ 90,736,496</u>

12. DONOR RESTRICTED NET ASSETS

Donor restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Specific purpose funds	<u>\$ 666,381</u>	<u>\$ 553,275</u>

Restricted funds include donations to the Foundation that have been restricted by donors for a specific purpose. Generally, these donations are for additions to Hospital property and equipment. Transfers are made to unrestricted funds as expenditures are made in accordance with the donor restrictions.

13. PENSION PLAN

The Hospital offers a defined contribution plan that covers all employees who meet eligibility requirements as to age and length of service and who elect to participate. The Hospital matches 50% of the employee contribution up to 4% of the eligible wages. Pension expense related to the defined contribution plan was \$1,148,782 and \$1,049,740 in 2009 and 2008, respectively.

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

14. CONCENTRATION OF CREDIT RISK

The Hospital is located in Greenfield, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables and revenue from patients and third-party payors at December 31 was as follows:

	Receivables		Revenue	
	2009	2008	2009	2008
Medicare	35%	37%	46%	48%
Medicaid	8%	7%	8%	8%
Commercial	28%	30%	37%	35%
Self pay and other	29%	26%	9%	9%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

15. SELF INSURANCE

The Hospital is self insured for employee health claims. A third party administrator processes the claims for the Hospital. The Hospital maintains an estimated liability for the amount of claims incurred but not reported. The Hospital maintains reinsurance including a stop loss for specific incident claims over \$150,000 and an employee lifetime maximum of \$1,000,000. Self-insurance includes post retirement health benefits as disclosed herein, see detail at footnote 16. Substantially all employees are covered for major medical benefits. The total health claims expense was \$5,678,759 and \$5,026,913 for 2009 and 2008, respectively.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

Changes in balance of health claim liabilities during the past two years are as follows:

	2009	2008
Unpaid claims estimate, beginning of year	\$ 1,318,663	\$ 722,437
Incurred claims and changes in estimates	5,678,759	5,026,913
Claims payments	<u>(4,784,321)</u>	<u>(4,430,687)</u>
Unpaid claims estimate, end of year	<u>\$ 2,213,101</u>	<u>\$ 1,318,663</u>

HANCOCK REGIONAL HOSPITAL

NOTES TO COMBINED FINANCIAL STATEMENTS DECEMBER 31, 2009 AND 2008

16. POSTEMPLOYMENT HEALTHCARE PLAN

The Hospital's defined benefit postemployment healthcare plan, Hancock Regional Hospital Postemployment Healthcare Plan (HRHPHP), provides medical benefits to eligible retired employees and their beneficiaries. The Hospital's estimated obligation to the HRHPHP is approximately \$1,672,000 and \$784,000 as of December 31, 2009 and 2008, representing the present value of the estimated future cash flows.

17. COMMITMENTS AND CONTINGENCIES

Malpractice Insurance

The Indiana Medical Malpractice Act, IC 27-12 (the Act), provides a recovery for an occurrence of malpractice and for any injury or death of a patient due to an act of malpractice in excess of certain thresholds. The Act requires the Hospital to maintain medical malpractice liability insurance on a per occurrence basis and in the annual aggregate for amounts below the thresholds of the Act. During 2001, the Hospital's malpractice carrier filed bankruptcy. The Hospital has obtained malpractice coverage through another carrier. The Hospital may be liable for certain pending claims incurred while with the former carrier. Management is not aware of any related material adverse effects to its financial condition. Prior to July 1, 1999, the Indiana Medical Malpractice Act provided for a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate) for professional liability, \$100,000 of which would be paid through the Hospital's malpractice insurance coverage and the balance would be paid by the State of Indiana Patient Compensation Fund. For claims on or after July 1, 1999, the Indiana Medical Malpractice Act provides for a maximum recovery of \$1,250,000 per occurrence (\$7,500,000 annual aggregate) with the first \$250,000 covered by the Hospital's insurance and the remainder by the Fund.

Effective July 1, 2006, the Hospital became a member in a captive insurance company, Suburban Health Organization Segregated Portfolio Company, LLC, to fund the Hospital's required portion of the professional and physician insurance coverage pursuant to the Act as well as its general liability insurance and excess coverage.